

**MASON COUNTY RURAL FIRE AUTHORITY
MASON COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Mason County Rural Fire Authority	County Mason
Fiscal Year End December 31, 2006	Opinion Date April 5, 2007	Date Audit Report Submitted to State April 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Hendon & Slate, P.C.		Telephone Number 231-924-6890		
Street Address 711 W. Main Street		City Fremont	State MI	Zip 49412
Authorizing CPA Signature 		Printed Name Jodi DeKuiper		License Number 1101021180

HS & Companies



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



April 5, 2007

Board of Directors
Mason County Rural Fire Authority
P.O. Box 152
Custer, MI 49405

Dear Board Members:

We would like to thank you for the opportunity to conduct the audit for the Mason County Rural Fire Authority. It was a pleasure working with the business manager throughout the engagement.

In connection with our audit of the financial statements of the Mason County Rural Fire Authority as of and for the year ending December 31, 2006, we reviewed your accounting procedures and internal control over financial reporting. We offer the following comments in connection with such.

Books and Records

We commend the Board and Business Manager for the excellent condition in which the accounting records were presented this year.

Budgeting

The Authority ended the year with an over-expenditure in capital outlay due to recording the donated air station not previously recorded. The board should be sure to amend the budget before over expenditures occur.

Financial Condition

We noted that the financial condition of the Authority improved this year. Last year the percent of unrestricted net assets to expenses was 13.4% while this year this percent was 23.3%. This means that if the Authority was unable to collect any income it would be able to operate for 2 ½ months versus 1 ½ months last year. It appears that this is largely due to the decrease in capital outlay purchases during 2006 in the amount of \$52,842 compared with 2005 in the amount of \$118,037.

This report is intended solely for the information and use of the Mason County Rural Fire Authority's management and the board members. This restriction is not intended to limit distribution of this report, which is a matter of public record.

We appreciate the courtesy extended to us during our audit. We are available year round to assist in the implementation of any of the recommendations set forth in this letter or to answer any questions regarding the audit.

Respectfully submitted,

Jodi DeKuiper, CPA
Jodi DeKuiper, CPA
Hendon & Slate, P.C.

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MASON COUNTY RURAL FIRE AUTHORITY

List of Principal Individuals

	<u>Position</u>
James Whitaker	Chairperson
Bruce Borema	Vice Chairperson
Bruce Krieger	Secretary
Bruce Patterson	Treasurer
Ron Melchert	Trustee
Robert Bacon	Business Manager

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Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Mason County Rural Fire Authority
c/o Bob Bacon
P.O. Box 152
Custer, MI 49405

Independent Auditor's Report

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of The Mason County Rural Fire Authority as of and for the years ended December 31, 2006 and 2005, which collectively comprise a portion of the Authority's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mason County Rural Fire Authority as of December 31, 2006 and 2005 and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information is presented for purposes of additional analysis, and is not a required part of the financial statements of Mason County Rural Fire Authority. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Mason County Rural Fire Authority. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate, P.C.

Hendon & Slate, PC
Certified Public Accountants
April 5, 2007

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MANAGEMENT'S DISCUSSION AND ANALYSIS
MASON COUNTY RURAL FIRE AUTHORITY
December 31, 2006 and 2005

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

The Authority as a Whole

The Authority's financial position has improved over the prior year. Combined net assets increased 23.9% from a year ago - increasing from \$668,368 to \$827,886. In a condensed format, the table below shows key financial information:

	Governmental Activities	
	<u>12/31/2006</u>	<u>12/31/2005</u>
Current Assets	\$ 119,051	\$ 122,354
Noncurrent Assets	<u>1,141,920</u>	<u>1,206,948</u>
Total Assets	1,260,971	1,329,302
Current Liabilities	38,084	234,934
Long-Term Debt Outstanding	<u>395,000</u>	<u>426,000</u>
Total Liabilities	<u>433,084</u>	<u>660,934</u>
Net Assets		
Invested in Capital Assets - Net of Related Debt	715,920	586,030
Unrestricted	<u>111,967</u>	<u>82,338</u>
Total Net Assets	<u><u>\$ 827,887</u></u>	<u><u>\$ 668,368</u></u>

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations increased by approximately 36% - increasing from \$82,338 to \$111,966 for the governmental activities. This increase was mostly due to the reduction in amount of overall expenses by approximately \$133,000. The largest reduction in expenses was due to not capitalizing nearly \$80,000 of capital outlay. Another significant decrease was in public safety expenses of a little over \$26,000 in wages and payroll tax expense. The current level of unrestricted net assets for governmental activities is about 23.3% of expenses.

Management's Discussion & Analysis (Continued)

	Governmental Activities	
Revenues		
Taxes	\$ 492,332	\$ 462,920
Wage Reimbursement	94,991	113,823
Interest	7,665	4,439
Grants & Other	44,928	26,679
Total Revenues	639,916	607,861
Expenses		
Public Safety	334,874	385,135
Debt Service	27,653	35,372
Capital Outlay	16,527	96,433
Depreciation	101,343	96,976
Total Expenses	480,397	613,916
	159,519	(6,055)
Sale of Fixed Assets	-	3,000
Change in Net Assets	\$ 159,519	\$ (3,055)

Governmental Activities

The total governmental revenues increased by \$32,055 primarily due to an increase in property taxes of \$29,412.

The total governmental expenditures remained relatively constant.

Business-Type Activities

The Authority has no business-type activities.

The Authority's Fund

The Authority has only one fund, which is the General Fund and the Major Fund, as presented on pages 5 - 8.

The General Fund pays for all of the Authority's governmental services. The most significant expenditures paid by the Authority are wages (including payroll taxes) and debt service, accounting for approximately 56% of total expenditures.

Management's Discussion & Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Authority amended the budget to take into account events during the year. The most significant change to revenues was a decrease of \$(13,020) in tax revenue, and the most significant change to expenditures was to wages & payroll taxes of \$14,600 due to an increase in fire and medical runs, amending the budget for actual receipts and disbursements as of December 31, 2006.

Capital Asset and Debt Administration

At the end of 2006, the Authority had approximately \$1.96 million invested in capital assets and approximately \$1.93 million for 2005, consisting of mostly vehicles. These vehicles are being depreciated over a 15 year estimated useful life.

During 2006, the loan at West Shore Bank for the purchase of fire trucks and equipment was paid in full. This will reduce the amount of annual principal and interest payments by approximately \$175,000 per year.

Economic Factors and Next Year's Budgets and Rates

The Authority's budget for 2007 calls for a 12.6% increase in property taxes. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Authority needs to continue to watch the budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Authority will grow less than by inflation, before considering new property additions.

The wage revenue budget for 2007 does not call for any change in the reimbursements. Total expenditures for 2007 are expected to have a 15.7% increase from 2006 budgeted amounts and a 31.8% increase over actual 2006 expenditures. The increase in budgeted revenues and the contingency of \$67,665 will allow for any unforeseen situations to occur resulting in significant expenditures.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the business manager.

MASON COUNTY RURAL FIRE AUTHORITY

Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2006

	General Fund	Adjustments ^a	Statement of Net Assets
ASSETS			
Current Assets			
Cash and Equivalents	\$ 31,078	\$ -	\$ 31,078
Wage Reimbursements Receivable	35,973	-	35,973
Prepaid Insurance	52,000	-	52,000
Total Current Assets	119,051	-	119,051
Capital Assets, Net of Accumulated Depreciation	-	1,141,920	1,141,920
Total Assets	<u>\$ 119,051</u>	<u>1,141,920</u>	<u>1,260,971</u>
LIABILITIES AND FUND EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 7,084	\$ -	\$ 7,084
Current Portion of Long-Term Debt	-	31,000	31,000
Total Current Liabilities	7,084	31,000	38,084
Note Payable	-	395,000	395,000
Total Liabilities	7,084	426,000	433,084
Fund Balances/Net Assets			
Fund Balance			
Unreserved	111,967	(111,967)	-
Total Liabilities and Fund Balances	<u>\$ 119,051</u>		
Net Assets:			
Invested in Capital Assets Net of Related Debt		715,920	715,920
Unrestricted		111,967	111,967
Total Net Assets		<u>\$ 827,887</u>	<u>\$ 827,887</u>

^aNotes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

MASON COUNTY RURAL FIRE AUTHORITY

Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2005

	General Fund	Adjustments ^a	Statement of Net Assets
ASSETS			
Current Assets			
Cash and Equivalents	\$ 69,747	\$ -	\$ 69,747
Wage Reimbursements Receivable	44,247	-	44,247
Prepaid Insurance	8,360.00	-	8,360
Total Current Assets	122,354	-	122,354
Capital Assets, Net of Accumulated Depreciation	-	1,206,948	1,206,948
Total Assets	<u>\$ 122,354</u>	1,206,948	1,329,302
LIABILITIES AND FUND EQUITY			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 40,016	\$ -	\$ 40,016
Current Portion of Long-Term Debt	-	194,918	194,918
Total Current Liabilities	40,016	194,918	234,934
Note Payable	-	426,000	426,000
Total Liabilities	40,016	620,918	660,934
Fund Balances/Net Assets			
Fund Balance - Unreserved	82,338	(82,338)	-
Total Liabilities and Fund Balances	<u>\$ 122,354</u>		
Net Assets:			
Invested in Capital Assets Net of Related Debt		586,030	586,030
Unrestricted		82,338	82,338
Total Net Assets		<u>\$ 668,368</u>	<u>\$ 668,368</u>

^aNotes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

MASON COUNTY RURAL FIRE AUTHORITY

Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities For the Year Ended December 31, 2006

	General <u>Fund</u>	<u>Adjustments</u> ^a	Statement of <u>Activities</u>
Revenues			
Taxes	\$ 492,332	\$ -	\$ 492,332
Wage Reimbursement	94,991	-	94,991
Interest	7,665	-	7,665
Grants & Other	44,928	-	44,928
Total Revenues	639,916	-	639,916
Expenditures			
Public Safety	334,874	-	334,874
Debt Service	222,571	(194,918)	27,653
Capital Outlay	52,842	(36,315)	16,527
Depreciation	-	101,343	101,343
Total Expenditures	610,287	(129,890)	480,397
Excess Revenues Over (Under) Expenditures	29,629	129,890	159,519
Fund Balance/Net Assets - Beginning of Year	82,338	586,030	668,368
Fund Balance/Net Assets - End of Year	\$ 111,967	\$ 715,920	\$ 827,887

^aNotes to the Financial Statements provide the details for main components of the adjustment
The Notes to the Financial Statements are an integral part of this statement.

MASON COUNTY RURAL FIRE AUTHORITY

Statement of Governmental Revenue, Expenditures and Changes in Fund Balance/Statement of Activities For the Year Ended December 31, 2005

	<u>General Fund</u>	<u>Adjustments^a</u>	<u>Statement of Activities</u>
Revenues			
Taxes	\$ 462,920	\$ -	\$ 462,920
Wage Reimbursement	113,823	-	113,823
Interest	4,439	-	4,439
Grants & Other	<u>26,679</u>	<u>-</u>	<u>26,679</u>
Total Revenues	607,861	-	607,861
Expenditures			
Public Safety	385,135	-	385,135
Debt Service	222,880	(187,508)	35,372
Capital Outlay	118,037	(21,604)	96,433
Depreciation	<u>-</u>	<u>96,976</u>	<u>96,976</u>
Total Expenditures	<u>726,052</u>	<u>(112,136)</u>	<u>613,916</u>
Excess Revenues Over (Under) Expenditures	(118,191)	112,136	(6,055)
Other Financial Sources			
Sale of Fixed Assets	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Total Other Financing Sources	<u>3,000</u>	<u>-</u>	<u>3,000</u>
Excess Revenues and Other Sources Over (Under) Expenditures & Other Uses	(115,191)	112,136	(3,055)
Fund Balance/Net Assets - Beginning of Year	<u>197,529</u>	<u>473,894</u>	<u>671,423</u>
Fund Balance/Net Assets - End of Year	<u><u>\$ 79,338</u></u>	<u><u>\$ 586,030</u></u>	<u><u>\$ 668,368</u></u>

^aNotes to the Financial Statements provide the details for main components of the adjustment:
The Notes to the Financial Statement are an integral part of this statement.

MASON COUNTY RURAL FIRE AUTHORITY

Notes to the Financial Statements
December 31, 2006 & 2005

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mason County Rural Fire Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Mason County Rural Fire Authority.

A. Reporting Entity

The Mason County Rural Fire Authority is governed by an elected seven-member council (Board). The accompanying financial statements present the government.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Notes to the Financial Statements (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenues that are both measurable and available are recorded when earned. All other revenue items are considered to be available only when cash is received by the Authority.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, however, there is only one fund reported.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables & Payables - All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Accounts payable for the years ended December 31, 2006 and 2005 were \$7,084 and \$40,016, respectively, and consisted of invoices from vendors.

Inventories & Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Notes to the Financial Statements (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Donated assets totaling \$36,315 and \$15,934 were received as of years ended December 31, 2006 and 2005 respectively.

Property, plant, and equipment is depreciated using the straight-line method over the following useful lives:

Buildings & Improvements	15 - 50 years
Vehicles & Trailers	10 - 15 years
Furniture & Equipment	5 - 20 years

Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures/expenses. Actual results could differ from those estimates.

NOTE B RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the Authority carries commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE C STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the years ended December 31, 2006 and 2005, the Authority did incur over expenditures in the following accounts:

2006	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Capital Outlay	\$ 40,000	\$ 52,842	\$ (12,842)
2005			
General Fund			
Capital Outlay	\$ 92,400	\$ 118,037	\$ (25,637)
Repairs & Maintenance - Building	22,000	25,576	(3,576)

Notes to the Financial Statement (Continued)

The variance reflected in the 2005 capital outlay item was a result of an audit adjustment. In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund were adopted at the line item level.

NOTE D RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and net change in fund balance of the Authority's governmental fund differs from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets.

	<u>12/31/06</u>	<u>12/31/05</u>
Total Fund Balance - Modified Accrual Basis	\$ 111,967	\$ 82,338
Amounts reported in the statement of net assets are difference because:		
Capital Assets are not financial resources, and are not reported in the funds	1,141,920	1,206,948
Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(426,000)</u>	<u>(620,918)</u>
Net Assets of General Fund - Full Accrual Basis	<u>\$ 827,887</u>	<u>\$ 668,368</u>
	<u>12/31/06</u>	<u>12/31/05</u>
Net Change in Fund Balances - Modified Accrual Basis	\$ 29,629	\$ (115,191)
Amounts reported in the statement of activities are different because:		
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Capital Outlay	36,315	21,604
Depreciation	(101,343)	(96,976)
Repayment of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>194,918</u>	<u>187,508</u>
Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ 159,519</u>	<u>\$ (3,055)</u>

Notes to the Financial Statement (Continued)

NOTE E DEPOSITS AND INVESTMENTS

Legal Provisions for Deposits and Investments - The Investment of Surplus Funds of Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, state the Township, by resolution may authorize the Treasurer to invest surplus finds in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of the United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 801-3 and 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 1. The purchase of securities on a when-issued or delayed delivery basis.
 2. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 3. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Es Sess) PA7 MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus Funds investment Pool Act, 1982 PA 367, 129.111 to 129.118
- j. The investment pools organized under the Local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

Notes to the Financial Statement (Continued)

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above. Deposits are carried at cost. Cash deposits of the Authority are in one financial institution: West Shore Bank. These accounts are in the Authority's own name.

The Authority's deposits are in accordance with statutory authority as follows:

	Carrying Amount	Market Value
NOW	\$ 2,761	\$ 71,812
Payroll Checking	2	4,862
Money Market - General	28,314	28,314
Total Deposits	<u>\$ 31,077</u>	<u>\$ 104,988</u>
FDIC Insured	\$ 2,763	\$ 76,674
Uninsured	-	-
Money Market Funds	28,314	28,314

Investments are normally categorized to give an indication of the level of risk assumed by the Authority; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE F LEASES

Each entity holds a lease with the Fire Authority for the use of the fire barns and similar properties. The Authority pays no monies for these leases, but does provide insurance, maintenance and repairs, and utilities for each building. The term of the lease agreements shall continue so long as the Authority shall use the premises for the purpose of providing fire protection services.

During 2005, the Authority entered into a lease with Xerox for the use of a copier. The lease calls for 60 minimum monthly payments of \$21.66, after which there is an option to purchase the copier at fair market value.

NOTE G CHANGES IN LONG-TERM DEBT

	Outstanding Principal 12/31/2006	Due Within One Year
<u>Fire Truck Loan #1</u>		
On May 17, 2002, the Authority entered into an agreement with West Shore Bank to consolidate two previous loans from West Shore Bank. This loan was in the amount of \$626,235 for the purchase of fire trucks and equipment. The note is due in annual payments of \$172,541.32. Interest is calculated at 3.9% per annum.	\$ -	\$ -

Notes to the Financial Statement (Continued)

Fire Truck Loan #2

During 2002, the Authority entered into an agreement with the United States Department of Agriculture (USDA) for a note in the amount of \$535,000 for the purchase of fire trucks and equipment. The note is due in annual principal payments of \$25,000 to \$48,000 through 2017 and interest payable semiannually at 4.625%.

	426,000	31,000
Total Notes Payable	<u>\$ 426,000</u>	<u>\$ -</u>

The annual requirements to amortize long-term debt outstanding as of December 31, 2006, including interest are as follows:

Year Ended December 31	USDA LOAN	
	Principal	Interest
2007	\$ 31,000	\$ 19,702
2008	32,000	18,269
2009	33,000	16,789
2010	35,000	15,262
2011 - 2015	201,000	50,459
2016 - 2017	94,000	6,568
Total	<u>\$ 426,000</u>	<u>\$ 127,049</u>

Changes in long-term debt for the year ended December 31, 2006:

	Fire Truck Loan #1	Fire Truck Loan #2	Total
Debt Outstanding - 1/1/06	\$ 165,918	\$ 455,000	\$ 620,918
Debt Added During the Year	-	-	-
Debt Retired During the Year	(165,918)	(29,000)	(194,918)
Debt Outstanding - 12/31/06	<u>\$ -</u>	<u>\$ 426,000</u>	<u>\$ 426,000</u>

Interest expense for the years ended December 31, 2006 & 2005 is \$27,653 & \$35,372, respectively.

NOTE H CAPITAL ASSETS

A summary of changes in general fixed assets for governmental activities is as follows:

	Balance 1/1/2006	Additions	Deductions	Balance 12/31/2006
Capital Assets:				
Equipment	\$ 28,534	\$ 36,315	\$ -	\$ 64,849
Vehicles	1,891,521	-	-	1,891,521
Site Improvements	5,670	-	-	5,670
Total	1,925,725	36,315	-	1,962,040
Accumulated Depreciation	(718,776)	(101,343)	-	(820,119)
Net Book Value	<u>\$ 1,206,949</u>	<u>\$ (65,028)</u>	<u>\$ -</u>	<u>\$ 1,141,921</u>
Depreciation Expense				
Public Safety		<u>\$ 101,343</u>		

MASON COUNTY RURAL FIRE AUTHORITY

Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 505,320	\$ 492,300	\$ 492,332	\$ 2,847.00
Wage Reimbursements	134,400	134,400	94,991	(39,409)
Interest	3,500	7,500	7,665	165
Grants & Other	2,000	8,600	44,928	36,328
Total Revenues	645,220	642,800	639,916	355,016
				2804.00
Expenditures - Public Safety				
Wages & Payroll Taxes	160,400	175,000	119,165	55,835
Payroll Reimbursements	30,000	27,519	27,519	-
Office Supplies	2,550	5,000	3,950	1,050
Operating Supplies	38,250	38,250	29,173	9,077
Service Charges	600	225	214	11
Mileage	300	300	268	32
Insurance	60,000	51,508	51,508	-
Repair & Maintenance - Buildings	16,050	20,000	14,784	5,216
Repair & Maintenance - Equipment	65,100	60,000	46,393	13,607
Professional Fees	6,000	4,000	3,925	75
Education and Training	14,450	6,000	4,117	1,883
Telephone	5,925	5,500	5,342	158
Utilities	35,450	30,000	23,967	6,033
Printing & Publishing	2,710	1,800	1,774	26
Miscellaneous	8,285	5,000	2,775	2,225
Capital Outlay	51,000	40,000	52,842	(12,842)
Debt Service	225,000	222,571	222,571	-
Total Expenditures	722,070	692,673	610,287	82,386
Excess Revenues (Expenditures)	(76,850)	(49,873)	29,629	437,402
Fund Balance - Beginning of Year	82,338	82,338	82,338	-
Fund Balance - End of Year	\$ 5,488	\$ 32,465	\$ 111,967	\$ 437,402

MASON COUNTY RURAL FIRE AUTHORITY

Required Supplementary Information Budgetary Comparison Schedule - General Fund For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 473,398	\$ 462,000	\$ 462,920	\$ 920
Wage Reimbursements	129,000	129,000	113,823	(15,177)
Interest	2,000	4,000	4,439	439
Grants & Other	5,000	10,700	26,679	15,979
Total Revenues	609,398	605,700	607,861	2,161
Expenditures - Public Safety				
Wages & Payroll Taxes	158,800	175,000	145,360	29,640
Payroll Reimbursements	30,000	25,950	25,947	3
Office Supplies	2,420	5,000	4,732	268
Operating Supplies	25,300	40,000	39,679	321
Service Charges	600	150	125	25
Mileage	300	300	192	108
Insurance	55,000	55,200	55,158	42
Repair & Maintenance - Buildings	16,550	22,000	25,576	(3,576)
Repair & Maintenance - Equipment	45,200	45,200	42,562	2,638
Professional Fees	6,000	4,500	4,300	200
Education and Training	16,400	10,000	6,365	3,635
Telephone	5,925	4,500	4,811	(311)
Utilities	32,975	29,000	23,401	5,599
Printing & Publishing	2,645	1,500	1,346	154
Miscellaneous	5,200	3,500	5,581	(2,081)
Capital Outlay	92,400	92,400	118,037	(25,637)
Debt Service	225,000	223,000	222,880	120
Total Expenditures	720,715	737,200	726,052	11,148
Excess Revenues (Expenditures)	(111,317)	(131,500)	(118,191)	13,309
Other Financing Sources (Uses)				
Sale of Fixed Assets	-	3,000	3,000	-
Total Other Financing Sources (Uses)	-	3,000	3,000	-
Excess Revenues & Other Sources Over (Under) Expenditures & Other Uses	(111,317)	(128,500)	(115,191)	13,309
Prior Period Adjustment	-	-	12,630	12,630
Fund Balance - Beginning of Year	184,899	184,899	184,899	-
Fund Balance - End of Year	\$ 73,582	\$ 56,399	\$ 82,338	\$ 25,939